

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into this 31 day of August, 1993, by and between the State of New York, ("New York") by Robert Abrams, Attorney General and The Keds Corporation (hereinafter referred to as "Keds"), a corporation organized, existing and doing business under and by virtue of the laws of the Commonwealth of Massachusetts, with its principal place of business located at 5 Cambridge Center, Cambridge, Massachusetts 02142. Keds is a wholly-owned subsidiary of The Stride Rite Corporation, with its principal place of business at 5 Cambridge Center, Cambridge, Massachusetts. The terms of this Agreement shall be available to all States and the District of Columbia as provided under the terms of Section IX herein.

WHEREAS, New York will file a complaint against Keds for damages and injunctive relief, on its own behalf and as parens patriae on behalf of natural person citizens of New York State, alleging an unlawful agreement to fix, maintain or stabilize resale prices of Keds Core Product, as defined in Section I (E) below, during the period May 1, 1992 - April 30, 1993, in violation of federal and state antitrust laws;

WHEREAS, Keds denies the allegations set forth in New York's Complaint;

WHEREAS, Keds has previously reinstated any dealer of Keds products who currently satisfies Keds' credit conditions that was

terminated by Keds on or subsequent to September 1, 1992, due in whole or in part to such dealer's failure to adhere to the terms of Keds' pricing policy;

WHEREAS, the parties have determined it to be in their best interests to resolve this dispute and enter into this Settlement Agreement:

NOW, THEREFORE, WITNESSETH:

I. DEFINITIONS

As used herein:

A. "Administration Account" means an interest-bearing account established by the State of New York as Lead Counsel and Defendant, and administered by a Trustee appointed pursuant to Section V(C) of this Agreement, for the purpose of paying administrative costs. The principal of the Administration Account shall be funded as described in Section V(A) below;

B. "Dealer" means any person, corporation or firm not owned by Keds that in the course of its business sells any Keds products;

C. "Lead Counsel" means the Attorney General of the State of New York;

D. "Defendant" or "Keds" means The Keds Corporation and its affiliates, parents, subsidiaries, divisions and other organizational units of any kind that sold Keds products as defined herein, their successors and assigns, and their present and former officers, directors, employees, agents, representatives and other persons acting on their behalf;

E. "Keds Core Product" means the following Keds footwear subject to the Keds Pricing Policy and which were offered for sale by Keds to dealers:

Women's Canvas Champion Oxford
Women's Canvas Champion Slip-on
Women's Leather Champion Oxford
Women's Leather Champion Slip-on
Women's Champion Leather Walker
Women's Champion Leather Bootie

F. "Keds Pricing Policy" means the pricing policy announced in May, 1992 and which became effective September 1, 1992 and which set forth minimum retail prices for Keds Core Product.

G. "Keds products" means all footwear products manufactured by or for The Keds Corporation and distributed under the Keds brand label.

H. "Plaintiffs" or "Plaintiff States" means the State of New York and any other States and the District of Columbia which opt to enter into the terms of this Agreement as provided in Section IX hereof, in their sovereign capacity and as parens patriae on behalf of all natural person citizens of such states who have purchased Keds products during the period of the alleged conspiracy (May 1, 1992 to and including April 30, 1993);

I. "Resale Price" means any price, price floor, price ceiling, price range, or any mark-up formula, or margin of profit used by any retailer for pricing any Keds Core Product. Such term includes, but is not limited to, any suggested, established or

Keds

customary resale price, as well as the retail price advertised, promoted or offered for sale by any retailer;

J. "State Administration Costs" means those costs to be paid from the Administration Account in connection with the administration of this Settlement, including notice by publication, all administrative tasks listed in Section V(A) of this Agreement, attorneys' and expert witness fees and investigative costs.

K. "Settlement Account" means an interest-bearing escrow account established by Plaintiffs and Defendant and administered by a Trustee appointed pursuant to Section VI(C) for the purpose of implementing this Settlement Agreement. The principal of the Settlement Account shall be funded as described in Section IV.

II. AGREEMENT

Subject to the approval of the Court, the parties agree to compromise, settle and resolve fully and finally on the terms set forth herein, any and all claims, actions and causes of action arising under any federal or state antitrust laws with respect to Keds products sold during the period May 1, 1992 - April 30, 1993, which Plaintiffs have, now have or may have against Defendant as of the date of this Agreement.

III. INJUNCTION

A. Keds agrees that, for a period of five (5) years from the date of this Settlement Agreement, it will not enter into any contract, combination, conspiracy, agreement or arrangement with

any New York dealer to fix, lower, raise, peg, maintain or stabilize the retail prices at which Keds products are advertised and sold to end-user consumers.

B. Keds agrees that, for a period of five (5) years from the date of this Settlement Agreement, it will not terminate, fail to fill orders of, reduce the supply of or discriminate in delivery, credit or other terms provided to any authorized New York dealer of Keds products in order to coerce said dealer to adhere to any of Keds suggested retail pricing policies. Notwithstanding the foregoing, Keds retains the right to terminate unilaterally any dealer for lawful business reasons, unrelated to resale prices, that are not inconsistent with this or any other paragraph of this Agreement.

C. Keds shall retain the right to limit its distribution channels for new products (defined as newly introduced shoe styles that differ materially and substantially from the Keds Core Product). However, Keds agrees that all new products will otherwise be fully covered by the terms of this Agreement.

D. Within twenty (20) days after the Court enters the Final Judgment and Consent Decree in this matter (the "Final Judgment"), Keds agrees to send the letter affixed as Attachment A hereto to all of its then current authorized New York dealers of Keds products.

E. For a period of five (5) years from the date of this Settlement Agreement, Keds shall notify its authorized dealers of Keds products that it is their right to determine independently

the prices at which they will advertise and sell Keds products to end-user consumers. Keds shall provide this notice by affixing a notice of disclosure (the "Disclosure") to every list of suggested retail prices and minimum advertised prices for any Keds products printed subsequent to the date of this Settlement Agreement and provided to dealers. The Disclosure shall clearly and conspicuously state the following on any list, advertising, book, catalogue or promotional material where Defendant has suggested any resale price to any dealer:

ALTHOUGH KEDS CORPORATION MAY SUGGEST RESALE
PRICES FOR PRODUCTS, RETAILERS ARE FREE TO
DETERMINE ON THEIR OWN THE PRICES AT WHICH
THEY WILL ADVERTISE AND SELL KEDS PRODUCTS.

F. Keds consents to an injunction issued by the Court requiring it to comply with the provisions of this Agreement.

G. This Agreement shall not be construed in any way to limit the right of Keds to suggest to its dealers or distributors retail prices for Keds products, or to engage in any other behavior that is otherwise permitted by federal and New York State antitrust laws.

IV. MONETARY PAYMENT

A. Keds agrees to pay to the Plaintiff States the total sum of \$7.2 million in full and final settlement of Plaintiffs' claims as set forth in Section II above. This sum includes \$1.5 million to be used by the Plaintiff States to cover the costs of

administering this Settlement, as set forth in Section V below. The remaining \$5.7 million will be paid into the Settlement Account to be used for distribution in lieu of consumer restitution, as described in Section VI below.

B. The \$7.2 million paid by Keds shall be reduced proportionately by the percentage of the national population, based on the most recent available population figures from the United States Census Bureau, attributable to the States and the District of Columbia that do not exercise their option to enter into this Agreement under the procedures set forth in Section IX.

C. Defendant is making all payments described in this Agreement solely as compensatory damages. Plaintiffs have not sought the imposition of criminal or civil fines or penalties (or payments in lieu thereof) as part of this Settlement. Payments hereunder do not constitute, nor shall they be construed as or treated as, payments in lieu of treble damages, fines, penalties, punitive recoveries or forfeitures.

V. ADMINISTRATION ACCOUNT

A. Keds shall pay the \$1.5 million for payment of the State Administration Costs as follows:

1. Within seven (7) days after execution of this Agreement, Keds shall deposit \$125,000 into the Administration Account for the purpose of enabling the Lead Counsel to pay for miscellaneous start-up expenses of the State Administration Costs;
2. On October 15, 1993 or within seven (7) days after

the Court orders preliminary approval of this Agreement, whichever date comes first, Keds shall pay into the Administration Account the sum of \$1.375 million which will be used for the purpose of enabling the Lead Counsel to pay the State Administration Costs, investigative costs and attorneys' fees. Such sum shall be used for certain administrative tasks, including but not limited to:

a. Payment of the costs of providing fair and adequate notice by publication to consumers who are members of the parens patriae group. The terms of the notice, subject to court approval, are provided in Section VII of this Agreement;

b. Payment of expert witness fees incurred in connection with seeking final approval of this Settlement Agreement;

c. Coordination by the Lead Counsel of the settlement agreements and motion papers to be filed by the Plaintiff States participating in this Agreement;

d. Payment of the costs and fees of the Trustee appointed pursuant to Section V(C) of this Agreement; and

e. Payment of costs incurred in administering the distributions in lieu of consumer restitution pursuant to Section VI.

3. Any residual remaining in the Administration Account after the payment of all administrative expenses shall be deposited into the Antitrust Training and Education Fund, administered by the National Association of Attorneys General.

B. Each Plaintiff State which enters into this settlement

shall be entitled to reimbursement of two thousand dollars (\$2,000) out of the Administration Account for its costs and attorneys' fees; except that the Lead Counsel State of New York shall be entitled to \$150,000 in investigative costs, attorneys' fees and costs of coordinating this action; and five (5) other States who have assisted in the investigation shall be entitled to reimbursement for their investigative expenses and attorneys' fees if they enter into the terms of this Agreement, in a sum not to exceed \$ 10,000 per state. These states are Connecticut, Illinois, Maryland, Tennessee and Washington.

C. The Administration Account shall be managed by a Trustee appointed by the Lead Counsel. The Trustee shall be responsible for investing, maintaining, administering and distributing the monies of the Administration Account, pursuant to the terms of this Agreement and any additional instructions made in writing by the Lead Counsel. The Trustee shall invest the Administration Account in obligations of, or guaranteed by, the United States of America or any of its departments or agencies, to obtain the highest available return on investment. Subject to the approval of the Lead Counsel, the Trustee may make other investments offering a higher return with similar security. The Trustee shall not act in a manner contrary to the terms of this Agreement.

VI. DISTRIBUTION IN LIEU OF CONSUMER RESTITUTION

A. Due to the impracticability of identifying particular purchasers of Keds Core Product during the relevant time period,

and the high costs of administering a check refund program relative to the average award to individual consumers, the \$5.7 million dollar payment by Keds will be used for a distribution in lieu of consumer restitution [hereinafter "the Distribution"].

B. The \$5.7 million payment by Keds to be used for the Distribution shall be payable as follows:

(1) The sum of \$2.85 million shall be paid into the Settlement Account on November 15, 1993 or within 7 days after the court grants preliminary approval of this Agreement, whichever date comes first;

(2) The sum of \$2.85 million shall be paid into the Settlement Account on February 15, 1994 or within 7 days after the court grants final approval of this Agreement, whichever date comes later.

C. The Settlement Account shall be managed by the Trustee appointed pursuant to Section V(C) above. The Trustee shall be responsible for investing, maintaining and distributing the monies of the Settlement Account, pursuant to the terms of this Agreement and any additional instructions made in writing by Plaintiff States. The Trustee shall invest the Settlement Agreement in accordance with the terms set forth in Section V(C) above.

D. Because of the difficulty in identifying particular purchasers of Keds Core Product during the relevant time period, and the high cost of administering a check refund program relative to the average award to individual consumers, the \$5.7 million paid by Keds shall be distributed pursuant to a distribution procedure

approved by the Court. Each participating state's share of the Distribution will be allocated by its percentage of the U.S. population. States may select any one of the charitable organizations listed below as the recipient of their proportional shares in the Distribution fund:

- 1) Women's Sports Foundation;
- 2) American Cancer Society;
- 3) American Red Cross;
- 4) Boys and Girls Clubs of America;
- 5) The Better Homes Foundation.

In the alternative, a State may elect to distribute its funds to a group or charity not listed above. In that case, that State shall move for court approval of its proposed distribution plan. In any event, the Settlement Account funds shall only be used to further a charitable cause that benefits women aged 15-44.

VII. NOTICE

A. Within the time period described below, Plaintiff will give notice by publication of this Settlement, in a form agreed to by the parties in Attachment B hereto and approved by the Court.

B. Subject to Court approval, the Notice Period shall commence thirty (30) days after preliminary Court approval of the settlement and shall extend for forty-five (45) days. During this period, notice of this settlement shall be made by the publication of notices in newspapers circulated in each Plaintiff State. The size of the newspaper notices shall be no larger than 1/4 of a page

of display advertising. The notice shall appear once in the Sunday edition of each newspaper agreed upon by the parties. Where no Sunday edition is published, the notice shall appear in a weekday edition or, at the option of the Plaintiff State, in a Saturday edition.

C. The dates on which notices will be published shall be within the discretion of each Plaintiff State but in any event shall be published within thirty (30) days of preliminary approval by the Court.

D. Notice of this Settlement shall be published in newspapers in each Plaintiff State which the Attorney General, in his or her exclusive discretion, concludes are sufficient to provide adequate notice.

E. Subject to Court approval, the publication notice shall be in the language of Attachment B hereto. The published notice shall summarize the terms of this agreement and shall also inform consumers of their right to opt out of the Settlement Agreement by writing to a separate address listed. Consumers who request information shall be sent, by first class mail, a legal notice describing their rights to object to this Agreement and/or opt out of the parens patriae group.

VIII. COOPERATION AND IMPLEMENTATION

A. The parties shall apply to the Court for preliminary and final approval of this Settlement Agreement as soon as practicable after the execution of this Agreement.

B. The parties agree to cooperate fully to implement the terms and conditions of this Agreement.

C. Defendant agrees not to oppose any petition by any Plaintiff State for costs and attorneys' fees in the amounts stated in Section V(B) above for each Plaintiff State, which Plaintiff States may use for any purposes. Such attorneys' fees and costs shall be considered as Administration Costs to be paid out of the Administration Account and any interest accrued thereon.

D. The parties agree that a Final Judgment and Consent Decree, in a form substantially similar to that attached hereto as Attachment C, may be entered by the Court following final approval of this Settlement in accordance with 15 U.S.C. §15c.

E. If a Plaintiff State determines that Keds is not in compliance with the terms of the Settlement Agreement, it shall give Keds notice of such non-compliance and Keds shall have seven (7) working days to respond. Such notice need not be in writing. If Plaintiff State is not satisfied with Keds' response, it shall notify Keds in writing and Keds shall have fifteen (15) working days to cure such non-compliance. If after such time Plaintiff State deems that Keds remains in non-compliance, Plaintiff State may seek the civil remedies available to it under the terms of the Final Judgment and Consent Decree.

F. Upon final approval of this Settlement and entry of the Final Judgment and Consent Decree by the Court, the Plaintiff States will dismiss their claims against Defendant Keds and the John Doe defendants with prejudice, and will not sue any Keds

dealer not named as a defendant, under any federal or state antitrust laws with respect to Keds products sold during the period May 1, 1992 - April 30, 1993.

G. Within seven (7) days after entry of the Final Judgment and Consent Decree by the Court and the expiration of the time for any appeals, the Plaintiff States shall execute a Release of all claims against Keds in the form attached hereto as Attachment D.

H. This Settlement Agreement shall not be used or construed by any person as an admission of liability by the Defendant to any party or person.

I. If for any reason this Settlement Agreement is not approved by the Court, the principal in the Administration Account, and any interest accrued thereon, shall be refunded to Defendant, reduced by the amount of out-of-pocket costs and expenses incurred in the administration of this Settlement to the date of Court disapproval. In addition, any monies paid into the Settlement Account pursuant to Section IV of this Agreement and any interest accrued thereon, shall be refunded to defendant if this Agreement is not approved by the Court. In such event, Plaintiff States shall retain full rights to assert any and all causes of action against Keds and all Dealers of Keds products.

IX. BENEFIT AND BINDING EFFECT

A. The terms of this Agreement shall be binding on, and shall inure to the benefit of, the parties and their successors. The parties expressly disclaim any intention to create rights under

this Agreement which may be enforced by any other person under any circumstances whatsoever, except as specified by Section IX(B) herein.

B. The terms of this Agreement may be entered into by the Attorney General of any State, including the Corporation Counsel of the District of Columbia, who takes the following actions by September 27, 1993 (the "Settling Attorneys General"):

1. Signs a Settlement Agreement, substantially in the form of this Agreement; and

2. Files the executed Settlement Agreement and a Complaint against Keds, substantially in the form of the Complaint filed by the Lead Counsel, alleging an unlawful agreement to fix, maintain or stabilize resale prices of Keds Core Product during the period May 1, 1992 - April 30, 1993, in violation of federal and state antitrust laws, in the United States District Court for the Southern District of New York as a related case hereto; or

3. Designates the Attorney General of the State of New York to represent such State pursuant to §4G of the Clayton Act, 15 U.S.C. § 15g, and to file a Complaint and/or sign a Settlement Agreement on behalf of such State; and serves notice by first class mail upon Defendant Keds and the Lead Counsel expressly notifying them of its intent to participate in the terms of this Agreement.

C. Keds shall sign each Settlement Agreement with a Settling Attorney General in the form of this Agreement within five business days after receipt.

X. TERM

This Agreement shall become effective as of the day and year first written above, and shall terminate five (5) years after the date hereof.

XI. AGREEMENT VOIDABLE

A. This agreement is voidable at the option of either Plaintiff State of New York or Defendant Keds if, by September 27, 1993, the Attorneys General of a number of states accounting for seventy per cent (70%) of the national population based on the most recent available population statistics from the U.S. Census Bureau, have not adopted the terms herein by following the procedures of Section IX(B) above. However, any other state which has not adopted the terms of this agreement by September 27, 1993, may still opt in to this agreement before October 12, 1993, provided Defendant Keds has not exercised its option to void this Agreement pursuant to Section XI(B) below.

B. Plaintiff or Defendant must exercise its option to void this Agreement by notifying the other in writing by October 7, 1993. This Agreement shall not be voidable after October 7, 1993.

XII. MISCELLANEOUS

This Settlement Agreement and the Attachments contain the entire agreement and understanding of the parties. There are no additional promises or terms of the Agreement other than those contained herein. This Agreement shall not be modified except in writing signed by Lead Counsel and Keds or by their authorized representatives.

AGREED AND CONSENTED TO:

DATED:
Cambridge, Massachusetts
August 31, 1993

Keds Corporation

By:

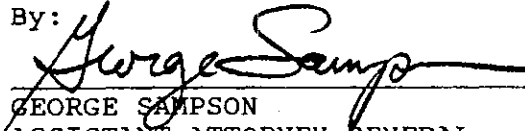


DOMINIC FERLAUTO
PRESIDENT, THE KEDS CORPORATION

DATED:
New York, New York
August 27, 1993

ROBERT ABRAMS
ATTORNEY GENERAL
OF THE STATE OF NEW YORK.

By:



GEORGE SAMPSON
ASSISTANT ATTORNEY GENERAL
CHIEF, ANTITRUST BUREAU

SO ORDERED: _____
(Preliminary Approval)

SO ORDERED: _____
(Final Approval)

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KEDS LETTERHEAD

Dear Retailer:

The New York State Attorney General's Office, along with the Offices of the Attorneys General in the other _____ states, and the Federal Trade Commission have conducted investigations into Keds' sales policies, and in particular, Keds' Suggested Retail Pricing Policy that was announced in May 1992. As you know, on June 25, 1993, Keds withdrew its Pricing Policy. Keds has always believed, and continues to believe, that its Pricing Policy did not violate the law. However, to expeditiously resolve the investigations and to avoid disruption to the conduct of its business, Keds has agreed, without admitting any violation of the law, to the entry of Final Judgments and Consent Decrees by the State of New York and the Federal Trade Commission prohibiting certain practices relating to resale prices. Copies of the Final Judgments and Consent Decrees are attached. This letter and the accompanying documents have been sent to all of our dealers, sales personnel and representatives.

The Final Judgments and Consent Decrees spell out our obligations in greater detail, but we want you to know and understand the following. Under both orders:

1. You can advertise and sell our products at any price you choose.
2. While we may send materials to you which may contain our suggested retail prices, you are completely free to disregard these suggestions.

In addition the New York Order requires that:

3. Keds will not take any adverse action against you because of the price at which you advertise or sell our products.

We look forward to continuing to do business with you in the future.

Sincerely yours,

President
Keds Corporation

ATTACHMENT A

ATTENTION KEDS PURCHASERS

If you have purchased Keds women's casual footwear during the period from May 1, 1992 - April 30, 1993, please read this notice carefully.

New York Attorney General Robert Abrams and the Attorneys General of 49 other states and the Corporation Counsel of the District of Columbia have brought resale price maintenance lawsuits against The Keds Corporation claiming that in some instances consumers were overcharged for certain Keds products at retail stores, during the period from May 1, 1992 - April 30, 1993. The Keds products which are the subject of the lawsuits are the following:

- Womens Canvas Champion Oxford
- Womens Canvas Champion Slip-on
- Womens Leather Champion Oxford
- Womens Leather Champion Slip-on
- Womens Champion Leather Walker
- Womens Champion Leather Bootie

No trial has been held on the merits of the States' allegations and Keds denies them. After extensive negotiations, the parties to the lawsuits agreed to a proposed settlement agreement to avoid long and costly litigation.

Under the proposed voluntary settlements of the States' cases, the Keds Corporation has agreed to pay the Plaintiff States the total sum of \$7.2 million after final Court approval.

ATTACHMENT B

Keds has also agreed to an injunction prohibiting future violations of the antitrust laws and will notify its dealers that they are free to price Keds products independently at whatever level they choose.

In view of the difficulty in identifying the millions of purchasers of the Keds products involved in the settlement and the relatively small overcharge per pair of shoes purchased, the States have proposed utilizing the \$7.2 million settlement amount to make charitable distributions in lieu of consumer restitution.

Recipients of these distributions would be charitable organizations selected by the Attorney General of each state, which sponsor programs benefitting women aged 15-44. Women in this age group represent the majority of purchasers of the Keds products covered by the lawsuits.

Keds has agreed to settle but without admitting any wrongdoing or liability. The proposed settlement must be finally approved by the Court, which has preliminarily approved the settlement. This notice does not express any opinion of the Court as to the merits of the claims or the defenses asserted by either side on the lawsuits.

The legal rights of all buyers of Keds products between May 1, 1992 and April 30, 1993 will be affected by this settlement. If you bought any Keds products within this period and you do not want to be bound by the settlement, you must expressly exclude yourself. To opt out of this settlement or for more information, write to Keds Settlement Trustee. (Address)

By Order of Judge _____ U.S. Dist. Ct., S.D.N.Y.

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causes of action arising under any federal or state antitrust laws with respect to Keds products sold during the period May 1, 1992 through April 30, 1993 including, but not limited to, all claims which are alleged in the Complaint in this case pending in the United States District Court for the Southern District of New York, which had, now have, or may have against any of them as of the date of the Settlement Agreement.

In witness whereof, George Sampson, on behalf of the Office of the Attorney General of the State of New York, has hereunto set his hand this _____ day of _____, 1993.

WITNESS:

STATE OF NEW YORK:

CITY OF NEW YORK : to wit:

I HEREBY CERTIFY that on this _____ day of _____, 1993, before me, a subscriber, a Notary Public of the State of New York, in and for the City of New York, personally appeared George Sampson, who made an oath in due form of law that he executed this Release as his free act and deed, and that the matters set forth therein are true and correct.

AS WITNESS by hand and Notarial Seal.

NOTARY PUBLIC
MY COMMISSION EXPIRES:

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ALTHOUGH KEDS CORPORATION MAY SUGGEST
RESALE PRICES FOR PRODUCTS, RETAILERS ARE
FREE TO DETERMINE ON THEIR OWN THE PRICES
AT WHICH THEY WILL ADVERTISE AND SELL
KEDS PRODUCTS.

ATTACHMENT E